

PE Analyst: Partnership Profile

New Venture Partners Goes Where Other VC Firms

Dare Not

By Scott Austin

12/1/2008 -- Freescale Semiconductor Inc. knew it possessed valuable computer-memory technology it could eventually embed in its microcontrollers, but it wasn't prepared to spend the millions of dollars it would take to build a real business in this area.

Enter New Venture Partners. The firm, a specialist in corporate spinouts, spent months negotiating complicated agreements that would allow it to pluck out 50 people, a manufacturing line and an intellectual property portfolio of more than 200 patents from Freescale. Ultimately, New Venture Partners put together a syndicate that invested \$20 million in Series A financing, and the new start-up, EverSpin Technologies Inc., launched in June.

"There was a slew of operating agreements that had to be negotiated that complicated the IP transfer a little bit," said Steve Socolof, managing partner and co-founder. "Needless to say, we ran up one of the largest legal bills I've ever seen."

Such complexities would frighten off most venture firms. But New Venture Partners has spent years perfecting the art of the high-tech corporate spinout.

The Murray Hill, N.J.-based firm itself spun out from Lucent Technologies Inc. in 2001 after helping to commercialize promising projects underway at Bell Laboratories that didn't quite fit with the company's strategy. Since then, it has invested in more than 50 spinouts, transforming technology into start-ups that can later bring strategic and financial benefits back to the corporation.

In more delicate cases, New Venture Partners incubates technology within a corporation by writing a check to fund the development with existing scientists and engineers. After lowering the risk of the project, creating a business plan and working with the company on potential channel relationships, the firm will spin the people and assets out while recruiting new talent. This requires deep relationships with corporations, in addition to thorough knowledge of complex issues like IP licensing.

Given the complexity of what it does, it took New Venture Partners some time to earn the trust of limited partners. After gaining its independence from Lucent in 2001, and armed with a new fund from institutional investors including Collier Capital Ltd., the partners began talking to traditional venture LPs about raising more capital. Initial reactions were negative.

"They said, 'We've been hearing back from traditional VCs about how hard this model is. There are huge time-sinks to pull out and you can never get the terms that you want,'" Socolof said. "So the experience from most VCs who've tried this is it's not worth the

effort."

The firm in 2003 raised another \$100 million, primarily from corporate investors like BT Group. But as it has begun to generate exits -17 in the past 10 years - more traditional LPs have clambered on board. For instance, portfolio company Flarion Technologies Inc., a developer of wireless broadband technology, sold to Qualcomm Inc. for \$600 million in 2006. Later that year, the firm raised \$303.8 million from a group of 25 undisclosed LPs, which include traditional pension funds, fund of funds and insurance companies from the U.S. and Europe.

Those LPs may be glad they climbed on board when they did. In the current environment, New Venture Partners thinks its model may get easier, if anything, to execute on, as corporations look for ways to preserve cash.

"There's even more pressure on corporations to focus on core products," Socolof said. "We help companies raise the bar on things that are of interest to them but they don't want to fund themselves."

New Venture Partners

The Firm

Founded in 1997 as the Lucent/Bell Labs New Ventures Group, the firm became independent in 2001. It has funded more than 50 technology spinouts from companies such as Lucent, British Telecommunications Group PLC, Koninklijke Philips Electronics NV and Intel Corp.

New Venture Partners plans to fund 20 to 25 spinouts from a \$303.8 million fund raised in 2006.

Recent Deals

Invested \$3 million in Series A financing in Texert Inc., an enterprise risk-management software provider that spun out from Asparity Decision Solutions Inc. in April; teamed up with Safeguard Scientifics Inc. to invest \$7.7 million in Series A financing in Alverix Inc., a medical diagnostics start-up spun out from Avago Technologies Ltd.

The Track Record

The firm has had 17 exits over the years. Among its most successful are the sales of Celiant Inc., a Bell Labs' spinout that was acquired by Andrew Corp. in 2002 for \$470 million; and Flarion Technologies Inc., also a Bell Labs spinout acquired by Qualcomm Inc. for \$600 million in 2006.